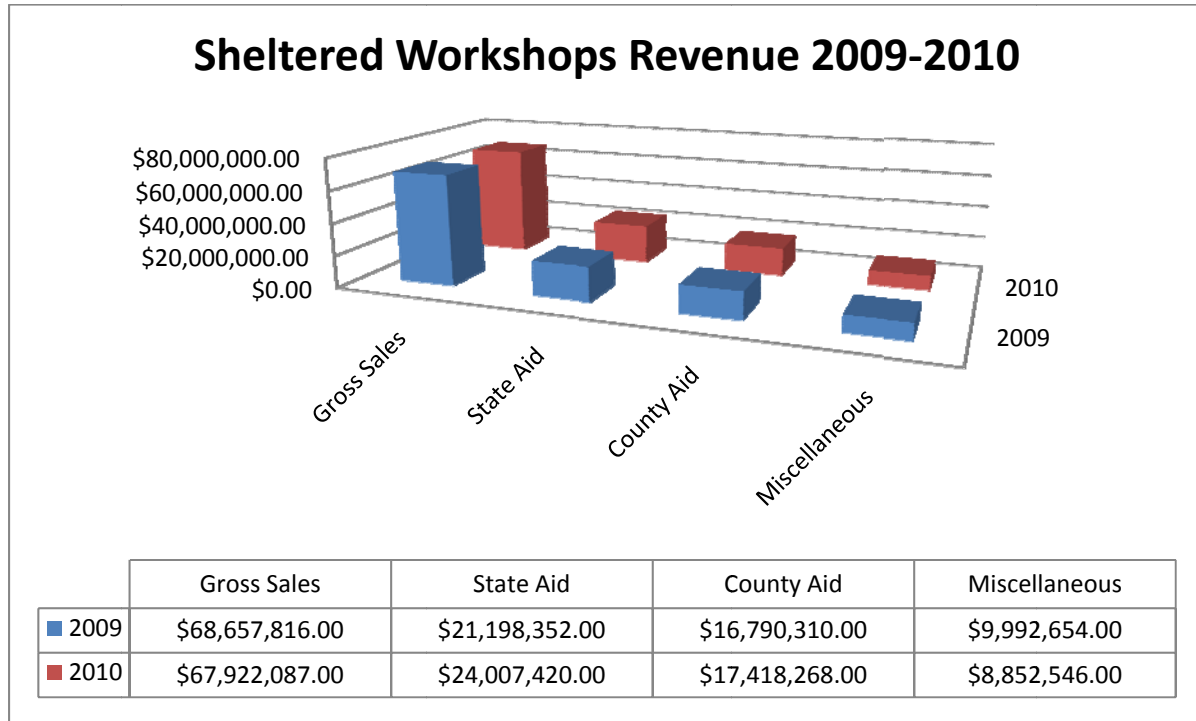


Missouri Sheltered Workshops FY 2010

The downturn of global economic conditions has had a negative effect on Gross Sales in Missouri's Workshops for the third year in a row. The following chart indicates this past year's revenue sources as compared to FY-09.



In FY 2010 the workshop system experienced a less than 1% decrease in the Gross Sales as compared to the previous year. The total combined loss of FY-09 and 10 is over 21% from FY-07. In spite of the decline in sales, for every one tax dollar in state aid paid to support the state's Workshops, they earned \$2.83 in contract sales from private industry, or a **2.83:1 ratio of return**.

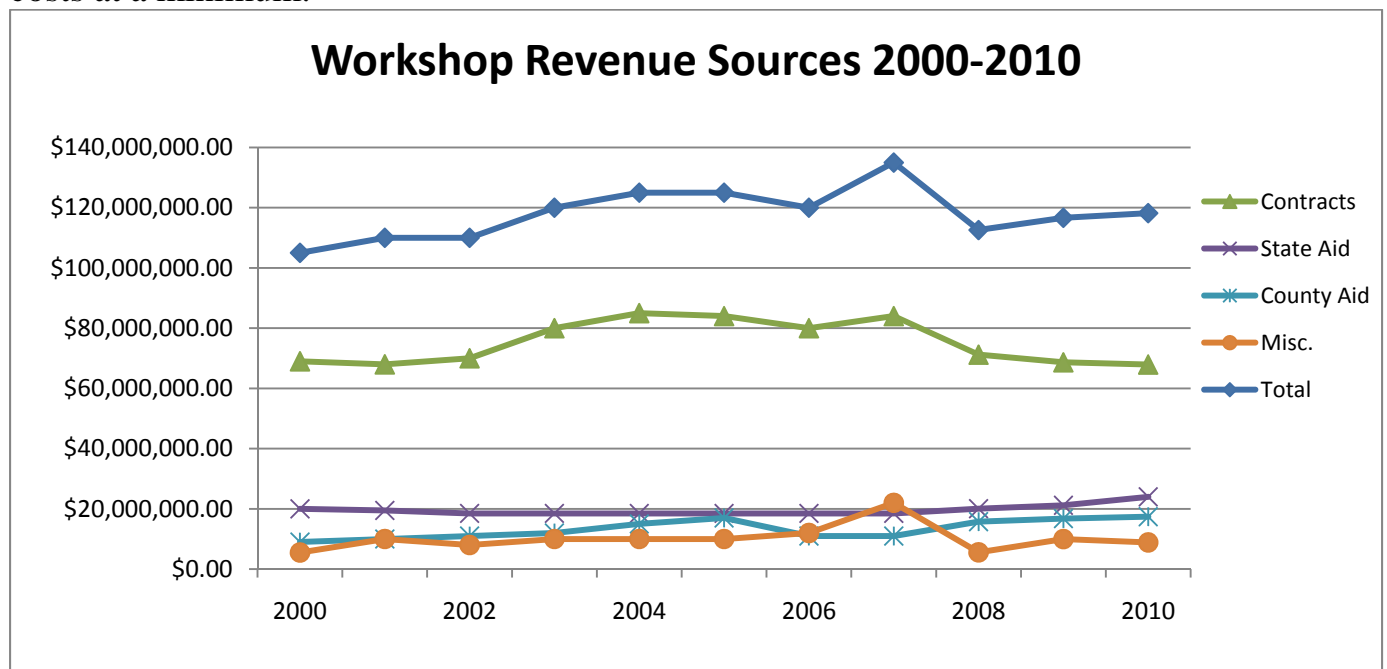
Historically, the workshops have closely followed the trends of the nation's light industry. The economic slowdown caused, in part, by loss of consumer confidence, weak sales, rising costs (materials, energy, transportation, etc.) and other reported factors were felt in the workshops' sales data mid way through FY-07. Its impact is graphically evidenced in the FY-08 data and reinforced in the FY-09 and FY-10 data.

On a positive note, it appears that the rate of decline in the Total Gross Income and Contract Sales has slowed significantly. Hopefully, this may be a sign that a recovery may be around the corner.

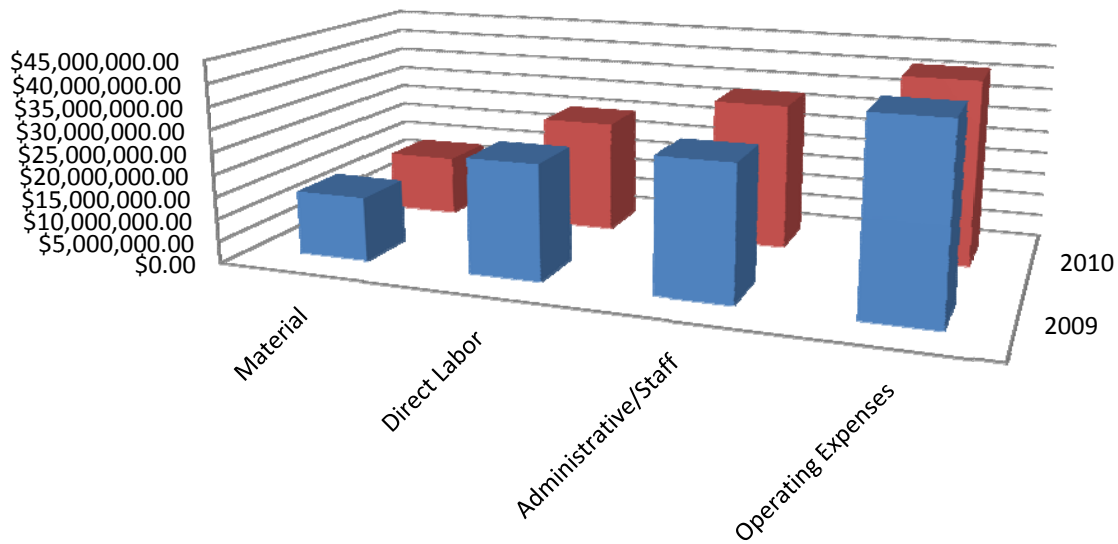
A considerable number of facility based contracts that had been traditionally considered “long-term” have shrunk back into private industry that is concerned about keeping their own labor force “busy”, address inventory issues and reducing transportation costs among a host of other reasons.

Selling the Sheltered Workshop services and capabilities to industry has always been the toughest function for these corporations. The changing world markets, coupled with the downturn of the global economy, have resulted in further stress on the industry. As an example, nearly one-half of the Workshops have some sort of contract recycling operation; during the second half of FY-08 the lack of foreign demand dropped drastically causing the price for recycled materials (fiber, plastic, non-ferrous material, etc.) to drop well below the labor cost it takes to process the materials. Although there has been an increase of prices for recyclable materials in FY-10, it still remains a marginal contract operation that may only recover direct labor costs at best.

As indicated in the chart, below, the Workshops have experienced a slight increase in total income (from \$115.5 million in FY-09 to \$118.2 in FY-10) primarily due to slight increases in state and county support and an increased success in attracting grants for specific projects and programs while holding the increase of total operating costs at a minimum.



Missouri Workshop Expenses FY09-FY10

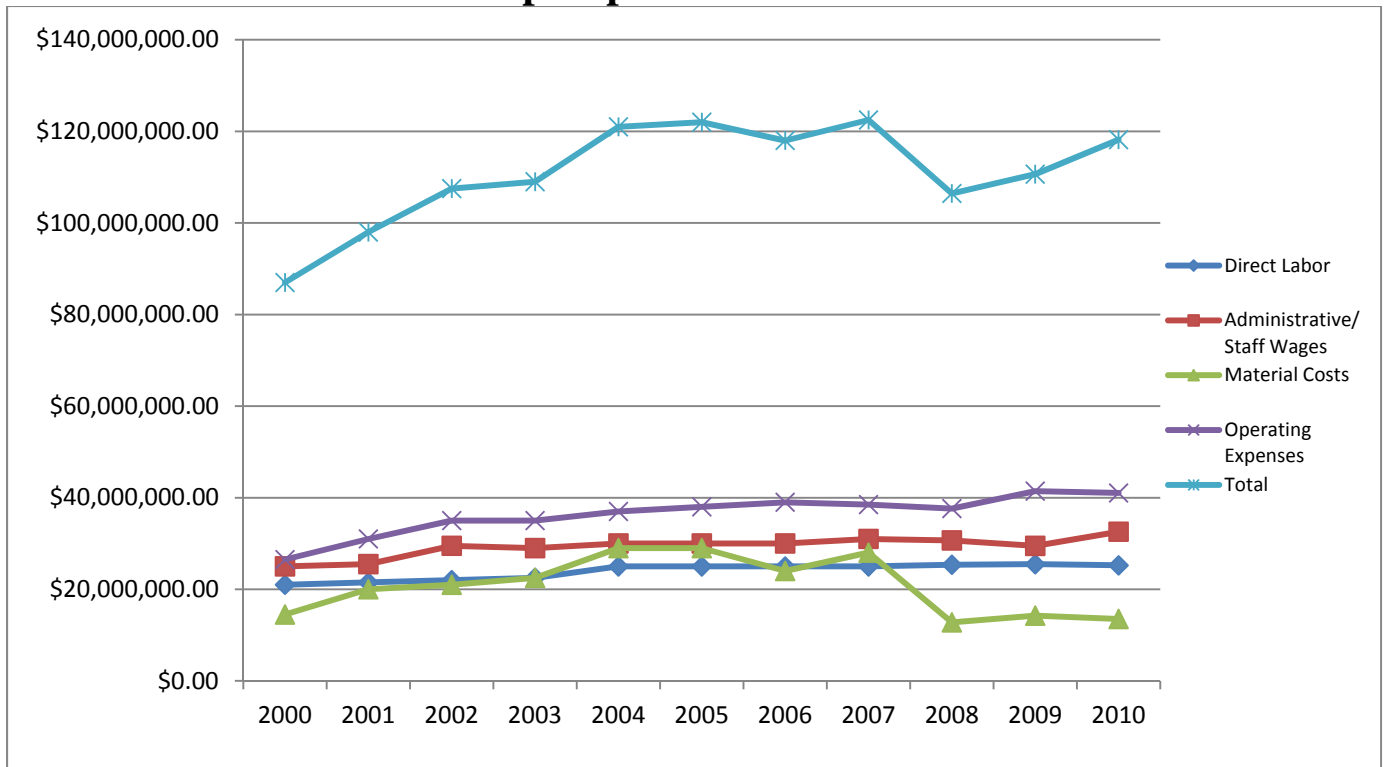


| | Material | Direct Labor | Administrative/Staff | Operating Expenses |
|--------|-----------------|-----------------|----------------------|--------------------|
| ■ 2009 | \$14,248,136.00 | \$25,483,989.00 | \$29,483,049.00 | \$41,436,715.00 |
| ■ 2010 | \$13,520,772.00 | \$25,238,387.00 | \$32,571,306.00 | \$41,031,038.00 |

FY-10 data of the four major cost categories (above chart) reveals a slight decline of material costs (-\$727K), certified employee wages holding steady (- \$245 K), an increase in Administrative/Staff wages (+\$3.1M) and a decrease in operating expenses (- \$405.7K).

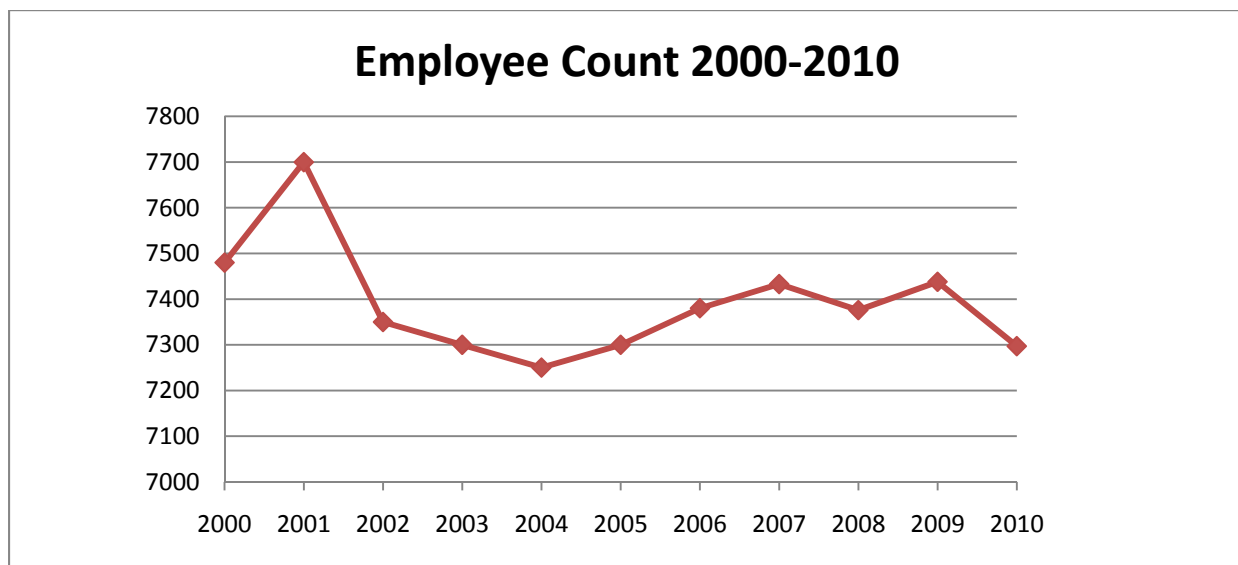
There was an increase of Total Costs in the amount of \$1,709,614 over the previous year. The rise of transportation, energy and other general expenses were the principal elements that made up the increase.

Workshop Expenditures 2000-2010



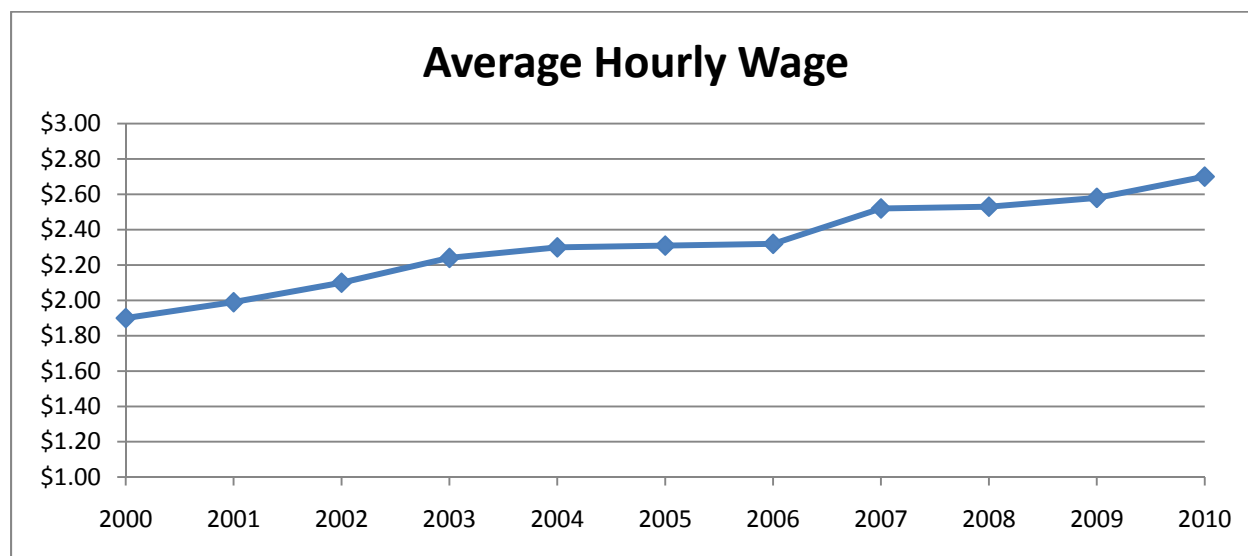
It appears that Missouri's Workshops have absorbed the increase of the US minimum wage in July 2009. The full impact of the increases in the federal minimum wages will not be fully felt until industry has had enough time to react to the mandated increase in labor cost by continuing to export their labor intensive work to foreign countries where minimum wage laws may not exist, or where labor costs are extremely low as compared to US standards. This may take several more years. The changing structure of the nation's economy will continue to present many difficult challenges to our current Workshop system necessitating changes in current operating strategies. Many workshop corporations have begun this process by researching and anticipating market needs, technical capabilities, operational structures and employee training that will be required by the supporting industries that provide the essential contract income. While maintaining a concerted effort on industrial contract sales, a number of workshops are shifting their efforts to community based service contracts to supplement the decline of facility based work.

Another effect of the economic downturn is its affect on the employment data. FY-10 employment data counts have changed significantly in several ways. First, the average Full Time Equivalent (FTE) has increased by 639 positions (4915 in FY-09 vs. 5564 in FY-10). Second, the number of certified employees working has decreased by 141 positions (7,438 in FY-09 vs. 7297 in FY-10). Third, the number of persons on the “waiting to be hired” list has increased by 80 individuals (795 in FY-09 vs. 875 in FY-10) for a total of 10.1% increase; keep in mind the employment numbers shown, above, represent employees at a point time, and does not take into consideration employees affected by various personnel activities during the year through attrition, transfers, relocations, medical leaves, etc. This number is difficult to determine but is approximately 7,400.



The above data indicates that the strategy of the individual workshop corporations to address the current economic reality is to increase the number of part-time positions in order to continue providing employment for the greatest number of people with disabilities and avoid complete layoffs that may put a large burden on employees, families and other related community care providers. However, it appears that the workshop corporations have nearly “frozen” the hiring of new employees in order to address the decreased availability of contract work opportunities; thus the 62.5% increase of the “waiting to be hired” list from FY-08, -09 and -10 (600 in FY-08 to 975 in FY-10). A reason for the rising waiting list is the lack of employment and work opportunities for persons with disabilities in the supported and competitive employment programs.

The average hourly wage continues to increase as local prevailing wage rates increase. The decrease in available contract work combined with the increase in training hours in FY-10 has taken the average hourly wage to \$2.70 per hour, a 4.6% increase over the previous reporting year.



Workshops do not pay sub-minimum wages but, rather, commensurate wages based on the employee's ability to produce in relation to a non-disabled standard. Workshops are required to determine prevailing wage rates for like type work done by experienced workers in the surrounding community. FY 2010 prevailing wages in the majority of shops were in the \$7.50 to \$9.50 per hour range which is reflective of the increase in the federal minimum wage rates. Employees are evaluated in relation to a non-disabled standard on the job they are assigned at least every six months. For example, if an employee is producing 50 units per hour and the industrial standard is 100 units, then the rate of pay is 50% of the prevailing wage rate for that job. If the prevailing wage rate is \$8.00, the employee will receive \$4.00 per hour. The workshop still pays \$8.00 in labor for producing 100 units, the same amount a non-disabled worker would make.

Commensurate wages do not mean less labor cost. The direct labor costs for workshops in fact are comparable to other similar business operations. Generally, overhead costs for workshops, including supervision, insurance, utilities, etc., are higher than similar businesses. Workshop employees, on average, produce at one third of a non-disabled worker. If a normal business needs 10 employees to produce 10,000 units a month, a workshop would need 30 employees to do the same. The increase in the number of workers required to do the job drives up normal overhead costs, i.e. supervision, space, insurance, utilities, etc. State and county financial aid are the primary source for offsetting these additional costs.

Workshops continue to be the primary employment option for many people with disabilities who may not be suited to work in a community based competitive work environment, but may be better suited for, or choose to work in, facility based work settings as a means to provide long term, or transitional, employment opportunities. Workshops continue to be a cost effective means of providing employment for people with severe disabilities. **For every dollar in state aid provided to Workshops in FY-10, \$2.83 was generated by workshop in sales to make the program financially viable since it generates and retains income in the respective local communities.** In this respect, employees with disabilities are “contributing” members of the community rather than “consumers” of services and dollars. Combined with the fact that other day programs are more than triple the cost per participant, this makes workshops a win-win situation not only for individuals with disabilities but also the state and local taxpayers.

In summary, Missouri’s Sheltered Workshop system had a very challenging year. The current economic conditions have generally affected the industrially based workshops in a negative manner; not only financially, but also programmatically. However, it appears that the decline of contract income and total revenues has slowed significantly and, with the exception of an increase in the waiting for employment list, the employment numbers have remained constant. In an effort to stem the tide of decline in the industrial work opportunities, a trend towards service contracts, retail sales and e-business is developing to fill the business void while supporting employment opportunities. It is expected that the Workshops will rebound as the general economic conditions recover and improve.

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